

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2003-368-S - ORDER NO. 2004-296
JUNE 15, 2004

IN RE:	Application of Madera Utilities, Inc. for)	ORDER RULING ON
	Approval of an Increase in its Sewer Rates)	APPLICATION FOR
	and Charges.)	INCREASE IN RATES

I. INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (hereinafter the "Commission") by way of an Application of Madera Utilities, Inc. (hereinafter "Madera" or the "Company"), filed on December 11, 2003, seeking approval of a new schedule of rates and charges for sewer service that Madera provides to its customers within its authorized service area in Clemson, in Pickens County, South Carolina. The Application was filed pursuant to S. C. Code Ann. Sections 58-5-210 et. Seq. (1976), as amended, and 26 S.C. Regs. 103-512 (1976).

By letter, the Commission's Deputy Executive Director instructed Madera to publish a prepared Notice of Filing, one time, in newspapers of general circulation in the area affected by Madera's Application. The Notice of Filing indicated the nature of the Application and advised all interested persons desiring to participate in the scheduled proceedings of the manner and time in which to file appropriate pleadings for inclusion in the proceedings. In the same letter, the Deputy Executive Director also instructed

Madera to notify directly, by U. S. Mail, each customer affected by the Application by mailing each customer a copy of the Notice of Filing. Madera furnished the Commission with an Affidavit of Publication demonstrating that the Notice of Filing had been duly published and with a letter in which Madera certified that it had complied with the instruction of the Deputy Executive Director to mail a copy of the Notice of Filing to all customers affected by the Application. In response to the Notice of Filing, Petitions to Intervene were filed on behalf of the Consumer Advocate for the State of South Carolina (the "Consumer Advocate"), the City of Clemson, and numerous customers of Madera.

Pursuant to S. C. Code Ann Section 58-3-95 (Supp. 2003), a panel of three Commissioners were appointed to hear and rule on Madera's Application. The panel consisted of Vice Chairman Mitchell, presiding, Commissioner Moseley, and Commissioner Wright.

On April 26, 2004, a public night hearing was held in Clemson, South Carolina in the Fellowship Hall of the First Baptist Church located at 397 College Avenue in Clemson. All three panel members were present at the night hearing. Also present at the hearing were many customers of Madera, including many of the intervenors in the case, who were heard to express opposition to Madera's Application.

On May 13, 2004, a public hearing concerning the matters asserted in Madera's Application was held in the Commission's hearing room located at Synergy Business Park, 101 Executive Center Drive – Saluda Building, Columbia, South Carolina. During the proceedings, Madera was represented by Elizabeth R. Munnerlyn, Esquire. The Consumer Advocate was represented by Elliott F. Elam, Jr., Esquire. Intervenor City of

Clemson was represented by Robert T. Bockman, Esquire. The Commission Staff was represented by Jocelyn G. Boyd, Staff Counsel.

At the May 13 hearing one customer, Denise Dull, testified as a public witness in opposition to Madera's requested rates. Madera presented the testimony of Timothy Brown, a licensed General Contractor; Tracey Q. Lee, a Certified Public Accountant; and John I. Rogers, III, the Vice President and Secretary of Madera. Intervenor City of Clemson presented the testimony of Larry Abernathy, Mayor, and Richard E. Cotton, City Administrator. The Commission Staff presented the testimony of Robin Foy of the South Carolina Department of Health and Environmental Control ("DHEC"); Steve W. Gunter, an Auditor for the Commission; and William O. Richardson, Chief of the Water and Wastewater Division of the Commission's Utilities Department. Witness Foy appeared pursuant to a subpoena requested by the Commission Staff. The Consumer Advocate did not present a witness. Intervenor Harold M. Harris, a retired college professor, testified as well.

In considering the Application of Madera, the Commission must consider competing interests. The interests of the consumers to receive quality service and a quality product at a reasonable rate compete with the interests of the provider to have the opportunity to earn a fair rate of return. Public Utilities are permitted to establish rates that, at a minimum, will cover their revenue requirements. These rates must be "just and reasonable," with no "undue" discrimination. Charles F. Phillips, Jr., *The Regulation of Public Utilities*, (1993) at 172.

Thus, in considering the Application of Madera, the Commission must give due consideration to Madera's total revenue requirements, comprised of allowable operating costs and the opportunity to earn a fair return. To this end, the Commission will review the operating revenues and operating expenses of Madera and will endeavor to establish adequate and reasonable levels of revenues and expenses. Further, the Commission will consider a fair return for Madera based upon the record before it. Should the Commission's determination show that rates should be increased, the Commission will then design rates that will meet the revenue requirements of Madera but that are also just and reasonable and free of undue discrimination.

II. FINDINGS OF FACT

1. Madera is a sewer utility providing sewer service in its assigned service area within South Carolina, and its operations in South Carolina are subject to the jurisdiction of the Commission, pursuant to S. C. Code Ann. Section 58-5-10 et seq. (1976), as amended.

2. The appropriate test year period for the purposes of this proceeding is the twelve-month period ending December 31, 2002.

3. The Commission will use operating margin as a guide in determining the lawfulness of the Company's rates and in the fixing of just and reasonable rates.

4. By its Application, Madera is seeking an increase in its rates and charges for sewer service which results in \$77,156 of additional revenues to Madera.

5. The appropriate operating revenues for Madera for the test year, under present rates and after accounting and pro forma adjustments, are \$23,730.

6. The appropriate operating expenses for Madera for the test year, under present rates and after accounting and pro forma adjustments and adjustments for known and measurable out-of-test year occurrences, are \$30,441.

7. The operating margin for the test year under present rates and after accounting and pro forma adjustments approved herein is (28.28)%.

8. Based on the operating margin for the test year after accounting and pro forma adjustments, we find that Madera has demonstrated the need for an increase in rates.

9. When applied to as adjusted test year operations, the rates requested and proposed by Madera result in an operating margin of 54.26%.

10. The Commission finds that an operating margin of 54.26% is unjust and unreasonable as producing excessive revenues. The Commission finds and concludes that a fair operating margin that the Company should have an opportunity to earn is 10%.

11. The level of operating revenues required in order for Madera to have an opportunity to earn a 10% operating margin is found to be \$34,845.

12. The Commission finds that Madera should maintain its books and records in accordance with the NARUC Uniform System of Accounts for Class C Sewer Utilities, as adopted by this Commission.

III. EVIDENCE TO JUSTIFY FINDINGS OF FACT

In this section, the Commission sets forth the evidence relied upon in making its Findings of Fact as set forth in Section II of this Order.

1. EVIDENCE FOR FINDING OF FACT NO. 1

The evidence supporting this finding concerning the Company's business and legal status is contained in the Application filed by Madera, in the testimony of Madera witness Rogers, and in prior Commission Orders in the docket files of the Commission, of which the Commission takes judicial notice. By the Application, Madera admits that it is a public utility within the meaning of S. C. Code Ann section 58-5-10(3) (Supp. 2003) and that it is providing sewerage service to one hundred and twelve (112) residential customers under a schedule of rates approved by this Commission in Order No. 90-31, Docket No. 88-45-S, dated January 12, 1990. Application at ¶ 1 and ¶ 5. In addition, Mr. Rogers testified that Madera purchased the right to operate the system from Piedmont Utilities Corporation. Rogers Prefiled Testimony, p. 1, 11, 13-18. This finding of fact is essentially informational, procedural, and jurisdictional in nature, and the matters which it involves are not contested by any party.

2. EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NO. 2

The evidence supporting this finding, that the appropriate test year period for the purposes of this proceeding is the twelve-month period ending December 31, 2002, is contained in the Application filed by Madera and in the testimony and exhibits of the parties' witnesses.

On December 11, 2003, Madera filed its Application requesting approval of rate schedules designed to produce an increase in gross revenues of \$77,840. See Application ¶6 and Exhibit C. The Company utilized a test year ending December 31, 2002. *Id.* The

Staff witnesses likewise offered their evidence generally within the context of the same test period. See Hearing Exhibit No. 4.

The test year is established to provide the basis for making the most accurate forecast of the utility's rate base, reserves, and expenses in the near future when the prescribed rates are in effect. *Porter v. South Carolina Public Service Commission*, 328 S.C. 222, 493 S.E.2d 92 (1997), citing *Hamm v. S.C. Pub. Serv. Comm'n*, 309 S.C. 282, 422 S.E.2d 110 (1992).

The Commission concludes that the appropriate test year to use in the instant proceeding is the twelve month period ending December 31, 2002. No party contested the use of that test year as proposed by Madera in its Application. To the contrary, all witnesses relied upon that test year in presenting their evidence.

3. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 3

In its Application, Madera did not specify or propose a particular rate setting methodology.

"The Public Service Commission has wide latitude to determine an appropriate rate-setting methodology." *Heater of Seabrook v. Public Service Commission of South Carolina*, 324 S.C. 56, 64, 478 S.E.2d 826, 830 (1996).

The Staff in its exhibits and testimonies presented information regarding the operating margins for per books test year, test year as adjusted, and after the proposed increase. See Hearing Exhibit No. 4, P. i (Synopsis) and P. 4 (Audit Exhibit A). The Commission Staff also presented various alternative operating margins and associated revenue requirements for those operating margins. Hearing Exhibit No. 5, P. 6 (Utilities

Department Exhibit No. 5) Because Madera does not show investment in rate base, the Commission finds that operating margin is the appropriate rate-setting methodology to use in this case.

4. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 4

The evidence for the finding concerning the amount of the requested rate increase is contained in the Application filed by Madera and in the testimony and exhibits of Staff witness Richardson. The Application of Madera indicates that it is seeking additional revenues of \$77,840 from the proposed rates for its sewer operations. Application of Madera Exhibit C. Additionally, Staff witness Richardson testified that under the rates proposed in the Application, Madera would see an increase in revenues of \$77,156. Hearing Exhibit No. 5 (Utilities Department Exhibit No. 2).

We adopt Staff's calculation of the increase in revenues because the Staff's calculation appropriately reflects annualized charges for sewer service without any additional miscellaneous charges. Staff's adjustment to annualize the rates recognizes revenues for sewer service for a full year under the approved rates. We find that the annualized revenues as calculated by the Staff to be appropriate to use in establishing rates. Therefore, the Commission finds that Madera is seeking an increase in its revenues of \$77,156.

5. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 5

Madera's Application shows per book test year total operating revenues of \$22,160. Application, Exhibit No. C. Staff began with the per book test year operating revenues of \$22,160, and Staff proposed an adjustment to per book operating revenues to

annualize service revenues using year-end customers. Hearing Exhibit No. 4, P. 4 (Audit Exhibit A); Hearing Exhibit No. 4, P. 6. (Audit Exhibit A-1, p. 1 of 4). Staff's proposed adjustment results in an increase to per book operating revenues of \$1,570. We find the adjustment proposed by Staff to be reasonable and adopt the Staff's adjustment. See, Evidence and Conclusions for Finding of Fact No. 4, above. Therefore, we find the appropriate operating revenues for the test year after accounting and pro forma adjustments are \$23,730.

6. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 6

The parties offered certain adjustments affecting operating expenses for the test year. Madera witness Rogers and Lee and Staff witness Gunter offered testimony and exhibits detailing adjustments proposed by the parties. See Hearing Exhibit No. 4 (Exhibits sponsored by Staff witness Gunter) and Madera's Application. This section will address the adjustments offered which affect operating expenses.

(A) Plant Maintenance; Chemicals and Supplies

(1) Position of Madera: Madera proposed an adjustment to Plant Maintenance of \$2,305. Application, Exhibit C.

(2) Position of Staff: Staff did not propose an adjustment for these items. Witness Gunter stated that Staff did not allow for the proposed adjustment because these expenses are estimated amounts and are not known and measurable to test year operations.

(3) Decision of the Commission: From the evidence presented at the hearing, the Commission finds that the Staff position with respect to the proposed adjustment for

Plant Maintenance should be adopted. Staff appropriately determined that the proposed adjustments do not reflect a known and measurable change. The Commission is guided in its decision by the case of Heater of Seabrook, Inc. v. Public Commission of South Carolina, 324 S.C. 56, 478 S.E.2d 826 (1996), in which the Supreme Court of South Carolina stated “(w)hen calculating expenses in rate cases, Commission should use only test year data and known and measurable changes occurring after the test year.” In the instant case, Madera’s proposed adjustments are not a known and measurable change and cannot be allowed.

(B) Rate Case Expenses:

(1) Position of Madera: Madera proposed an adjustment of \$346 in the test year for rate case expenses for legal and accounting fees. Application, Exhibit C.

(2) Position of Staff: Staff proposed an adjustment of \$11,000 for actual rate case expenses and proposed to amortize the rate case expenses over a five year period. Gunter, Prefiled Testimony, PP. 11-12, Hearing Exhibit No. 4, P. 6 (Audit Exhibit A-1, 1 of 4). To give effect to its proposal, Staff made an adjustment to increase General And Administrative Expenses by \$2,200. Id.

(3) Decision of the Commission: The Commission finds that the Staff’s treatment of these items is appropriate and should be adopted.

With regard to the rate case expenses allowed by the Staff in its proposed adjustment, the Commission approves rate case expenses of \$11,000 and the amortization period of five years proposed by Staff. Staff witness Gunter stated that the Staff’s adjustment amortized actual rate case expenses; thus the level of rate case expenses was

verified by the Staff. The Commission finds that rate case expenses are a proper item for inclusion in rates. Ideally, the amortization period for the recovery of the rate case expenses should allow for recovery of those expenses between rate cases. However, it is impossible to foresee what the future holds and to state with any certainty when the Company may need to return to this Commission for rate adjustment. Madera acquired the utility in 1985 and this is only the second time Madera has sought rate relief.

In *Hamm v. South Carolina Public Service Commission*, 309 S.C. 282, 422 S.E.

2d. 110 (1992), the Supreme Court of South Carolina stated:

Adjustments for known and measurable changes in expenses may be necessary in order that the resulting rates reflect the actual rate base, net operating income, and cost of capital. The adjustments are within the discretion of the Commission and must be known and measurable within a degree of reasonable certainty. Absolute precision, however, is not required.

(citing *Michaelson v. New England Tel. & Tel. Co.*, 121 R.I. 722, 404 A. 2d 799 (1979)).

While the Commission cannot state with absolute precision when the Company will return for another rate proceeding, the Commission must provide a sufficient amortization period under which Madera may recover its expenses. The Commission finds a five year amortization period reasonable.

(C) Interconnection and Upgrade Expenses:

(1) Position of Madera: Madera proposes to record the effects of borrowing \$134,000.00 for interconnection expenses to connect to the Town of Clemson as required by DHEC and \$180,000.00 for an upgrade of the system as required by Clemson as a condition of connection. See Testimony of Cotton. Further, Madera proposes an amortization period on these amounts of 15 years.

(2) Position of Staff: Staff did not accept the adjustment proposed by Madera because the loans for the construction projects of the lift station and interconnection have not yet been made. Hearing Exhibit No. 4, P. 7, Audit Exhibit A-1. Further Staff indicated that the loans are not a proper operating expense. Staff does not recognize loan repayments or interest expense in operating expenses but does allow annualized interest in the booking of Income Tax expense and in the computation of the operation margin based on interest synchronizations.

(3) Decision of the Commission: The Commission finds that the Staff properly did not accept the adjustment proposed by Madera. As Staff noted in Audit Exhibit A-1, “[t]he loans have not been made and are not a proper operating expense.” Hearing Exhibit 4, P. 7. As Staff witness Gunter noted in his testimony, the Company requests the Commission to grant rate relief based on a set of circumstances that has not actually occurred. Thus the adjustment proposed by Madera to cover the loans needed for these construction projects are not known and measurable, and the Commission declines to accept Madera’s proposed adjustment. Not only does the proposed adjustment fail the “known and measurable” principle, it also fails the “used and useful” principle.

What Madera is requesting this Commission to do is to require the customers of Madera to fund up-front the improvements which Madera wants to make to the system. However, Madera must recognize that it is a public utility and that it has an obligation to provide the services to that portion of the public in Madera’s authorized service territory. Traditionally, a utility will make improvements, capital expenditures, or investment in plant through funding provided by shareholders. Once the improvements, capital

expenditures, or investment in plant have been completed and the plant is used in providing the utility services to the public, a utility will seek a return on the investment made by the utility or shareholders. To have a return set and to seek to recover appropriate amounts of the investment, the utility will file a rate case and ask that rates be set using the improvements, capital expenditures, or investment in plant. However, under the traditional scenario, the utility seeks rate coverage after the capital expenditures have been made and after the improvements or investment in plant are used in providing service. At that point, a utility can state with specificity and certainty the amounts spent on the improvements or investment in plant and thus meet the “known and measurable” principle and can state that the improvements are used in providing service to the public and meet the “used and useful” principle.

The Commission finds no justification to require the customers of Madera to fund the costs of improvements up-front. While the Commission does find herein that Madera has shown the need for a rate increase, that need is based on the fact that Madera’s revenues do not cover the reasonable yearly operating expenses approved herein. The fact that Madera is faced with making improvements to the system is not in and of itself sufficient justification to warrant the rate increase. Madera should not look to the customers to fund investment in plant before the plant is installed or before the plant is used and useful in providing the services. The used and useful principle not only presupposes that the actual dollars of investment have been expended but that the properties or plant in question are actually being used to provide service.

(D) Unpaid Attorney's Fees:

(1) Position of Madera: Proposes to increase expenses for unpaid attorney fees incurred prior to the test year but not paid.

(2) Position of Staff: Staff did not accept Madera's proposal because the fees were for a lawsuit that was not related to the test year.

(3) Decision of the Commission: The Commission finds that Staff position is correct since the matter was not related to the test year and a non recurring item.

(E) Bill Collection Expenses:

(1) Position of Madera: Madera proposes to increase bill collection expenses to recognize an increase in the monthly customer service fee charged by Clemson for billing and collection or for the cost of increased staff or services should Madera undertake its own bill collection.

(2) Position of Staff: The Staff proposes an adjustment of \$6114.00 rather than the \$6048.00 proposed by Madera. Staff's adjustment differed from the Company's due to the Staff's use of a revised year end customer count.

(3) Decision of the Commission: The Commission finds that the proposal of the Staff is reasonable because the increase is a known and measurable change to test year operations.

(F) Management Fees:

(1) Position of Madera: Madera proposes to increase General and Administrative expenses for management fees accrued for earlier years but not yet paid due to lack of funds in the amount of \$11,355.00.

(2) Position of Staff: The Staff did not include the adjustment because it is for expenses that were incurred prior to the test year.

(3) Decision of the Commission: The Commission finds that the adjustment of Madera should be denied and the position of the staff adopted. The expenses were clearly incurred prior to the test year. To include expenses from prior years in future rates would violate the regulatory prohibition against retroactive ratemaking.

(G) Current Year Management Fees:

(1) Position of Madera: Madera proposes an adjustment of \$18,000.00 for management fees. Madera did not submit a management contract.

(2) Position of Staff: The Staff did not allow the adjustment because Staff was unable to verify the duties performed to justify the fee and therefore did not allow the adjustment.

(3) Decision of the Commission: The Commission finds that the staff position is correct. It is the responsibility of the Company to provide evidence to support an adjustment. With regard to this adjustment, Madera did not provide justification. Further, Madera did not provide support for this adjustment to Staff during the Staff audit.

(H) Taxes:

(1) Position of Madera: Madera made no specific adjustment for taxes.

(2) Position of Staff: The Staff proposed adjustments for Taxes Other Than Income and for Income Taxes.

(3) Decision of the Commission: The Commission finds that the Staff's adjustment should be adopted since the rate increase approved herein will create

additional taxes from Madera's operations. The Consumer Advocate objected to an adjustment for income taxes due to Madera's formation as a Sub-chapter S corporation. However, the Commission recognizes that the rate increase will create additional income tax liability, and the Commission finds that inclusion in rates of that tax liability using lawfully applicable state and federal tax rates is appropriate. Further, the Commission recognizes that gross receipts taxes will increase and that coverage of Thus the Commission approves the Staff adjustment to Income Taxes and to Taxes Other Than Income.

7. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 7

The operating margin for the test year under present rates and after accounting and pro forma adjustments approved herein is (28.28)%. The calculation for the operating margin using the test year as adjusted operating revenues of \$23,730.00 as approved herein and test year as adjusted operating expenses of \$30,441.00 as approved herein was provided by Staff witness Gunter. Gunter, Prefiled Testimony, P. 8; Hearing Exhibit No. 4, P. 4 (Audit Exhibit A). According to Mr. Gunter, adjusted test year operations result in a "Net Loss for Return" of (\$6,711). Using the adjusted Net Loss for Return minus Interest Expense if applicable divided by Operating Revenues, Staff calculated a negative operating margin of (28.28)%.

The following table indicates (1) the Company's gross revenues for the test year after adjustments approved herein, under the presently approved rate schedule; (2) the Company's operating expenses for the test year after accounting and pro forma adjustments and adjustments for known and measurable out-of test year occurrences

approved herein; and (3) the operating margin under the presently approved schedules for the test year:

TABLE A

	<u>Before increase</u>
Operating Revenues	\$ 23,730
Operating Expenses	<u>30,441</u>
Net Operating Income/Loss	(6,711)
 NET INCOME/(LOSS) FOR RETURN	 <u>(\$6,711)</u>
 Operating Margin	 <u>(28.28)%</u>

8. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT 8

Based upon the Finding of Fact 7, we find that Madera has demonstrated a need for rate relief in the form of a rate increase. Adjusted test year operations reveal an operating margin of (28.28)%. Clearly, expenses of operating the system outweigh the revenues of the system.

9. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT 9

The rates requested and proposed by Madera produce an operating margin of 54.26% when applied to adjusted test year operations. Information concerning the effect of the proposed rates when applied to as adjusted test year operations of Madera is found in the Staff's exhibits introduced during the hearing. Mr. Gunter calculated that the rates proposed by Madera, which would produce additional revenues of \$77,156 result in an operating margin of 54.26%. Hearing Exhibit No. 4, P. 5 (Audit Exhibit A).

10. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT 10

The Commission finds that an operating margin of 54.26% is unjust and unreasonable as such an operating margin produces excessive revenues for the Company. The Commission concludes that a fair operating margin for Madera operations is 10.00%.

Madera has opined that it is seeking the requested increase in rates so that Madera may continue to provide sewer service to its 113 customers. According to Madera, DHEC has ordered Madera to eliminate its wastewater treatment lagoon, and Madera has explored the possibility of a tie-in with the City of Clemson's sewer system. Madera asserts that in order to continue to serve its customers, Madera requires a significant increase in rates. The Commission recognizes that Madera faces increased costs in continuing to serve its customers and that Madera requires increased revenues just to meet day-to-day operations, without considering the costs associated with any necessary capital improvements required on the system.

While the Commission recognizes a need for increased rates and increased revenues by Madera, the Commission is not without sympathy for the customers. The Commission recognizes that the customers are being requested to pay a sizeable rate for sewer service. However, the documentation provided in this case, along with the standards of ratemaking, substantiate the need for a rate increase. The utility is operating in the negative. The Commission must allow for the utility to be viable in order to provide the services to the public.

The Commission recognizes that it must consider the value of the services provided as well as recognize that there is a limit to what the public can bear. The

Commission must strike a balance between the revenue needs of the utility and the value of the service to the public. Madera has demonstrated a need for the rate increase. Further, Madera has presented evidence that it will be seeking loans in order to finance the capital projects needed to meet DHEC's requirements. Thus, the Commission must consider that Madera will need to show financial viability and an ability to repay debt in order to obtain necessary financing for the capital projects. However, while keeping in mind the financial status and viability of Madera, the Commission does not ignore the impact of rate increases on the public. In light of these factors and based upon the record in the instant proceeding, the Commission concludes that a reasonable and fair operating margin which Madera should have an opportunity to earn is 10.00%.

11. EVIDENCE AND CONCLUSIONS FOR FINDING IF FACT 11

In order to have the opportunity to earn a 10.00% operating margin, Madera will require an increase in operating revenues of \$34,845. Table B which follows reflects a 10.00% operating margin and the requisite revenues to allow Madera with the opportunity to earn a 10.00% operating margin:

TABLE B

	<u>After increase</u>
Operating Revenues	\$ 34,845
Operating Expenses	<u>31,362</u>
Net Operating Income/Loss	\$ 3,483
 NET INCOME/(LOSS) FOR RETURN	 <u>\$ 3,483</u>
 Operating Margin	 <u>10.00%</u>

12. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT 12

The Commission finds that Madera should begin maintaining its books and records in accordance with the NARUC Uniform System of Accounts for Class C Sewer Utilities, as adopted by this Commission. Staff witness Gunter testified that Madera is not keeping its books in accordance with the NARUC chart of accounts. Accordingly, Mr. Gunter recommended that Madera begin recording its revenues, expenses and other transactions using the NARUC Uniform System of Accounts. We find that Madera should maintain its books and records using the NARUC Uniform Systems of Accounts as required by 26 S.C. Code Regs. 103-517 (Supp.2003). Further, we advise Madera to consult with the Staff if guidance is needed concerning the requirements of the NARUC Uniform System of Accounts.

IV. CONCLUSIONS OF LAW

Based upon the Findings of Fact as contained herein and the record of the instant proceeding, the Commission makes the following Conclusions of Law:

1. Operating margin is the appropriate guide for the Commission to use in determining the lawfulness of the rates of Madera and in fixing of just and reasonable rates for Madera to charge its customers in South Carolina.
2. A fair operating margin for the sewer operations of Madera in South Carolina is 10%.
3. For the test year of December 31, 2002, the appropriate operating revenues, under present rates and as adjusted in this Order, are \$23,730.

4. Using the operating margin of 10.00% found to be fair and reasonable in this Order, the revenue requirements for Madera are \$34,845.

5. In order for Madera to have an opportunity to earn the operating margins reasonable and approved in this Order and to meet the revenue requirements, Madera must be allowed additional revenues of \$11,115.

6. In order for Madera to earn additional revenues of \$11,115, Madera is hereby authorized to charge a flat monthly rate of \$25.70.

7. The rates approved in this Order are designed to be just and reasonable without undue discrimination and are also designed to meet the revenue requirements of the Company.

8. Based on the adjustments approved herein and the increase in rates approved herein, the appropriate operating margin for Madera on its South Carolina operations are 10.00%.

9. Madera shall maintain its books and records in accordance with NARUC Uniform System of Accounts for Class C Sewer Utilities, as adopted by this Commission and as required by 26 S.C.Code Regs. 103-517 (Supp. 2003).

IT IS THEREFORE ORDERED THAT:

1. Madera is granted an increase in rates and charges as provided herein for its sewer operations in South Carolina.

2. The schedule of rates and charges attached hereto as Appendix A are hereby approved for service rendered on or after the date of this Order. Further the

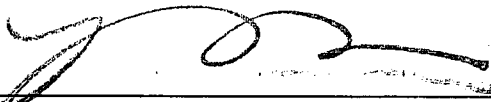
schedules are deemed to be filed with the Commission pursuant to S. C. Code Ann. Section 58-5-240 (Supp. 2003).

3. Should the schedules approved herein and attached hereto as Appendix A not be placed in effect until three (3) months from the effective date of this Order, the schedules shall not be charged without written permission from the Commission.

4. Madera shall maintain its books and records for sewer operations in accordance with the NARUC Uniform System of Accounts for Class C Water and Sewer Utilities, as adopted by this Commission.


5. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



Mignon L. Clyburn, Chairman

ATTEST:



Bruce F. Duke, Executive Director

(SEAL)

APPENDIX A

MADERA UTILITIES, INC.

Filed Pursuant to Order No. 2004-296
(Docket No. 2003-368-S)
Effective Date of Order: June 15, 2004

RATES FOR SEWER SERVICE:
(For service rendered on or after June 15, 2004)

Monthly Flat Rate per Connection	\$25.70
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